

STATE OF NORTH CAROLINA

**DEPARTMENT OF PUBLIC SAFETY
DIVISION OF ADULT CORRECTION AND JUVENILE JUSTICE
SHIFT PREMIUM PAY**

FINANCIAL RELATED AUDIT

NOVEMBER 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**DEPARTMENT OF PUBLIC SAFETY
DIVISION OF ADULT CORRECTION AND JUVENILE JUSTICE
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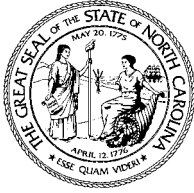
NOVEMBER 2013

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AUDITOR'S TRANSMITTAL

November 26, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Frank L. Perry, Secretary, Department of Public Safety

This report presents the results of our financial related audit at the Department of Public Safety - Division of Adult Correction and Juvenile Justice. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed deficiencies in internal control that are considered reportable under *Government Auditing Standards*. These items are described in the *Audit Finding and Response* section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the ways listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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BACKGROUND

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Department of Public Safety - Division of Adult Correction and Juvenile Justice (Department – Division). There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions. However, during the course of the audit, possible mishandling of payroll overpayments for six officers at Wayne Correctional Institute was brought to our attention. Therefore, we include this matter in our audit scope as described in the *Audit Scope and Objectives* section of this report.

According to the Department's website, the Division is responsible for the care, custody, and supervision of all adults and juveniles sentenced after conviction for violations of North Carolina laws. For adults sentences range from probation served in the community to active prison sentences served in one of the state's 66 prisons. In addition, Article 13 of Chapter 143B-701 of the *North Carolina General Statutes*, directs the Division to provide the necessary custody, supervision, and treatment to control and rehabilitate criminal offenders to reduce the rate and cost of crime and delinquency. This includes providing:

- Adequate custodial care, educational opportunities, and medical and psychological treatment services to all incarcerated persons.
- Community-based supervision and some needed social services to clients on probation, parole, or post-release supervision.

As part of these responsibilities, correction officers must work various shifts to ensure that supervision is maintained for all incarcerated individuals 24 hours a day, seven days a week. Among these officers, individuals are tasked to provide bus transportation for inmates to required appointments, such as doctor appointments or court appearances. Since some of these appointments are scheduled early in the mornings, work schedules often begin between 2 and 4 a.m. Correction officers work eight to 12 hour shifts and a portion of their hours worked qualify for shift premium pay.

AUDIT SCOPE AND OBJECTIVES

The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters. Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our general audit scope covered the period from July 1, 2012 through December 31, 2012. However, we also examined payroll overpayments for six officers at Wayne Correctional Institute during the period from April 1, 2008 through December 31, 2012. We considered internal control related to the following account and organizational units:

Personal Services Expenditures / Shift Premium Pay (10%) – Shift premium is in place to provide additional compensation for employees regularly working evening, night, or weekend hours. For the six months ended December 31, 2012, the Department reported \$13.6 million of shift premium 10% pay.

Department of Public Safety – Controller’s Office

This organizational unit is responsible for the general accounting functions of the Department. It provides financial policy guidance to the Department and oversees financial transactions to ensure they are properly authorized and processed in a timely manner. The payroll section processes personal service expenditures and related payroll functions.

Division of Adult Corrections and Juvenile Justice - Prisons

This organization unit is responsible for housing more than 38,000 inmates in 66 state prisons. Each prison is also responsible for maintaining supervision of its inmates on a 24 hour a day, seven days a week basis. The prisons are each semi-autonomous units under the oversight of the Division. As such, assignment of work shifts, preparation of timesheets, and system input of personnel and payroll actions are approved and documented at the prison level.

METHODOLOGY

To accomplish our audit objective, we gained an understanding of internal control over matters described in the *Audit Scope and Objectives* section of this report and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting recorded transactions and balances, as considered necessary in the circumstances.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS AND CONCLUSIONS

The result of our audit disclosed deficiencies in internal control that are considered reportable under generally accepted government auditing standards. These items are described in the *Audit Findings and Responses* section of this report. Management's response is presented after the audit finding. We did not audit the response, and accordingly, we express no opinion on it.

AUDIT FINDINGS AND RESPONSES

EMPLOYEES OVERPAID AND RECOUPMENT MISHANDLED

The Division of Adult Correction and Juvenile Justice overpaid six officers at a North Carolina prison a total of \$58,313 from April 2008 through March 2012. After discovering the overpayments, Department of Public Safety management initiated a review of the situation, a calculation of the amount that should have been paid, and a recoupment process. Due to unclear policies, the exact amount of the overpayment was difficult to determine, and the manner in which the overpayments were recouped caused an unreasonable hardship on the employees. Deficiencies in the timekeeping process increase the likelihood of such payroll errors occurring.

Officers Paid Incorrectly for Four Years

Six officers at Wayne Correctional Institute were overpaid as far back as April 2008 and as recently as March 2012. The officers were coded in BEACON (the State's payroll and human resources system) as night shift instead of day shift as required by the guidance in effect at the time. This error caused all time worked to be paid at the night shift premium rate instead of only the hours eligible for shift premium pay.

The overpayments were discovered in March 2012 by a payroll technician, and the total overpayment calculated by BEACON was \$58,313. The Division later calculated the overpayments manually and gave the employees shift premium credit for some of the hours, resulting in a total overpayment amount of \$35,859. However, as discussed below, it does not appear that the employees were entitled to shift premium pay based on their assigned work schedules. The policy guidance available at the time, which consisted of memos and a formal policy on shift premium pay, was inconsistent and unclear. As a result, employees were unsure of exactly how to calculate the overpayment.

The officers who were overpaid do not appear to have met the definition of transportation officers, and therefore, were not eligible for any shift premium pay. Even though Department policies were sometimes inconsistent, all contained two requirements for officers to be classified as transportation officers: (1) drive a transfer bus or bus route/schedule; and (2) work days that are a minimum of 12 hours long on a regular recurring basis. Shift premium does not apply to other officers who may transport inmates on an irregular basis from time to time or for days that are regularly less than 12 hours long.

Although the officers who were overpaid drive a bus and work a regular recurring shift, none of the six had ever been scheduled in their BEACON work schedule to work a 12-hour shift. Therefore, it does not appear that the officers were eligible for shift premium pay, which means the \$58,313 overpayment originally computed by BEACON was correct.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Manner of Recouping Payroll Overpayments Resulted in Financial Hardship for Officers

The manner in which the payroll overpayments were recouped caused unreasonable hardship on the employees. State laws require recovery of payroll overpayments and allow agencies to offset the debt against future net wages. Further, if an employee agrees in writing that at least 10% of his or her net disposable earnings be withheld to pay the debt, then this shall be deemed to be repaying the money within a reasonable amount of time.

When the officers' work schedules were changed from night to day shift, BEACON automatically withheld all of the employees' monthly wages. Receiving no pay resulted in the employees also losing benefits, including medical insurance coverage. The Department established a repayment schedule with each officer to relieve the financial hardship.

Deficiencies in Timekeeping Process

In addition to the lack of clear policies, there are other deficiencies in the Division's timekeeping process that increase the likelihood of payroll errors:

- Employees complete manual timesheets that are reviewed and approved by the supervisor. These timesheets are then provided to time administrators for data entry into BEACON. However, the timesheets only provide total hours worked in a day and do not distinguish the times when the hours were worked. As a result, time administrators have to infer the shift premium hours worked.
- There is no independent review and approval of data entry into BEACON to ensure that the timesheet information is keyed correctly.
- Employees have not received training on how to complete timesheets correctly.
- A standard work schedule has not been established in BEACON for employees working shift premium schedules where the normal work day overlaps both the night and day shifts. In order to trigger shift premium pay for night hours, a push code must be manually entered into BEACON for the qualified hours.

Recommendation: The Department should reconsider its calculation of the overpayment amounts and recover additional funds if required. A key to this process will be clearly defining in policy those employees who are eligible for shift premium pay and the conditions under which such pay is indicated.

Policies should also address how payroll overpayments are to be recouped in a reasonable manner and in accordance with state law.

The Department should also strengthen its timekeeping process to reduce the likelihood of payroll errors.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Agency Response: While the department generally agrees with the audit finding, it should be noted that based on past interpretations provided by the department's human resources section and our understanding of the intent of our policy (that transportation officers receive shift premium pay even if they do not regularly work 12-hour days), we believe that the six (6) Transportation Officers at Wayne Correctional Center were, in fact, eligible to receive transportation officer shift premium pay for the relevant hours they worked providing regular and recurring inmate transportation to the department's transfer facility located at Sandy Ridge.

We agree that unclear policies and payroll system limitations resulted in many assumptions in the calculation of the overpayment; thereby, making the determination of the exact amount of overpayment difficult. In addition, we agree that our staff's original estimate of \$35,859 incorrectly included weekend premium pay, and should be adjusted (increased) to factor that out.

The department agrees that the limitations of the current state payroll system, which include the inability to allow the entry of time-in and time-out hours, create difficulties in determining correct shift premium hours for transportation officers. We also agree that the payroll system's current procedure for the recoupment of payroll overpayment creates unreasonable hardships for employees in the event of overpayment and should be modified.

The department will revise and clarify policies relating to transportation officer shift premium pay to make them less subject to varying interpretations, and to better reflect the "intent" of that pay, which is to support the division's critical operation of regularly transporting inmates throughout the state. The department will also improve the internal communications and independent review to strengthen the timekeeping process to reduce the likelihood of payroll errors.

Planned Corrective Actions

1. Revise and begin implementation of correction to the overpayment amount (\$35,859) of the six (6) Wayne Correctional Center Transportation Officers to factor out the incorrect inclusion of weekend premium pay.

Projected Completion Date: February 28, 2014.

2. Revise/clarify/make clearer policies and procedures relating to transportation officer shift premium pay and to simplify/make more consistent the calculation of transportation officer shift premium pay.

Projected Completion Date: In July, the department developed a work group to review and make recommendations relating to payroll overpayments, including the types cited in this audit relating to transportation shift premium pay. This workgroup has made some preliminary recommendations, and the department will continue this review and develop final recommendations regarding policies and procedures by May 30, 2014.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recognizing that this full completion is anticipated to take six (6) months, in the interim, the department will assist the field in implementing this through direct communication from management.

3. Improve the management of accurate time entries through the two (2) following corrective actions:
 - a. Improved internal checks and balances/communications to better ensure that changes in staffing (such as assignment of work shifts) and/or operations are properly communicated to time administrators from operations staff.

Projected Completion Date: January 1, 2014, and on an on-going basis.

- b. Payroll system training by time administrators to more accurately identify and enter various types of pay, including shift premium pay. Time administration and entry, including that for transportation shift premium pay, is done independently at each of the Division of Adult Correction and Juvenile Justice's prison facilities (which effective January 1, 2014, totals 61).

Projected Completion Date: To be determined. Time administration training, which is linked to the use of the BEACON payroll system, is provided by the Office of State Controller and is conducted on a limited basis. As such, due to turnover, many of these facilities' time keepers are in need of training, and it is important to note that until they receive such training, they are not permitted to enter time into the BEACON system. As a result of this, management is required to find and share experienced time-keeping substitute staffing to maintain the time entry process until the required training is provided to affected time keepers. The department understands the critical nature of the provision of adequate training of its time keepers; however, the completion of this process is contingent upon the availability of training provided by the Office of State Controller.

4. Communicate to the Office of State Controller needed improvements to the payroll system to better assist with the calculation of overtime, including shift premium pay, and the need to revise the overpayment recoupment process. It should be noted that these issues have been brought to the attention of the Office of State Controller by the department. We will continue to do so.

Projected Completion Date: Unknown.

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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